

Fact Sheet for Public Housing Authorities and Owners of Section 8 Moderate Rehabilitation (Mod Rehab) or McKinney Mod Rehab Single Room Occupancy (SRO) Properties Converting Under the Rental Assistance Demonstration (RAD)

U.S. Department of Housing and Urban Development
Office of Recapitalization



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Are you an owner looking to modernize and place your Moderate Rehabilitation (Mod Rehab) or Mod Rehab Single Room Occupancy (SRO) property on stable financial footing? Are you a public housing authority (PHA) looking to facilitate the long-term preservation and affordability of Mod Rehab and Mod Rehab SRO properties in your portfolio? Learn how the Rental Assistance Demonstration (RAD) can help you get started today! This fact sheet is part of an outreach and resource initiative for RAD; it is designed to help encourage owners and PHAs to participate in RAD, and to further your understanding of the RAD conversion process and its requirements. For more information, please see the information in the text box at the end of this document.

RAD Background



RAD is a U.S. Department of Housing and Urban Development (HUD) program that is open to owners of Section 8 Mod Rehab (including the SRO program), Rent Supplement, Section 236 Rental Assistance Payment (RAP), and public housing properties. Owners of properties funded under these programs can convert the unit subsidy funding to long-term Section 8 project-based rental assistance.

RAD enables owners and PHAs to successfully preserve and recapitalize properties to:

- Improve and modernize through capital repairs.
- Stabilize by placing them on solid financial footing.
- Safeguard long-term rental assistance for current and future tenants.



The requirements for conversion of Mod Rehab properties under RAD can be found in Section 2 of the RAD Notice (Housing 2017-03/PIH 2012-32 Rev 3).

RAD Benefits, Impacts, and Your Role

What are the benefits of a RAD conversion for owners?

RAD allows owners to convert Mod Rehab contracts to long-term Section 8 contracts, which provide improved funding and permit owners to make improvements or redevelop properties, as needed, by leveraging debt and equity-financing sources. Specifically, a Mod Rehab owner can replace the current Mod Rehab HAP Contract (which is currently renewed annually and at restricted rent levels) with either of the following types of Section 8 contracts: Project-Based Vouchers (PBVs) administered by the PHA with a term of up to 20 years or Project-Based Rental Assistance (PBRA) administered by HUD with a term of up to 20 years. Typically, the new contract will provide for higher monthly funding levels. The new contract ensures that the property remains affordable, allows the owner to better plan for the future, and expands the owner's options for financing repairs and improvements.

How can the Public Housing Authority ensure Mod Rehab Owners are aware of RAD benefits?

HUD recommends that each PHA that administers Mod Rehab and/or Mod Rehab SRO HAP contracts contact each owner and provide them with a copy of this fact sheet to make sure they are aware of the potential benefits of RAD and the opportunity to convert to Section 8 project-based assistance.

What is the Public Housing Authority's ongoing role in the conversion of a Mod Rehab contract under RAD?

The PHA that is currently administering the Mod Rehab or Mod Rehab SRO contract would play an ongoing role if the property converts to PBV. Before conversion to PBV, the PHA determines the number of units and tenants that are eligible to be on the new contract. The PHA and owner terminate the existing Mod Rehab contract and execute the new, long-term Section 8 HAP contract. Upon conversion to PBV, new vouchers are added to the PHA's Voucher Annual Contributions Contract (ACC) and the PHA would receive an ongoing administrative fee. The PHA would be responsible for performing tenant certifications, unit inspections, administration of subsidy, and other responsibilities of the PBV HAP Contract.

If the property converts to a PBRA contract, HUD, rather than the PHA, would administer the contract. Accordingly, the PHA would not receive an administrative fee and would not be responsible for contract administration roles such as inspections, tenant certifications, and the administration of the HAP subsidy.

What are the key eligibility requirements for Mod Rehab owners?

The owner must be in good standing with HUD and the PHA. The owner must follow applicable fair housing and civil rights requirements. The property must currently meet HUD's physical inspection standards, except with HUD approval.



How will the new contract rents be established?

When a property converts through RAD from assistance under a Mod Rehab contract to a long-term Section 8 contract, the rents will generally be set based on the market rent, though there are some differences based on whether the property converts to PBV or PBRA. The chart below explains the differences for initial contract rent setting and subsequent adjustments during the term of the contract.

	PBRA Contract Rent set at lower of:	PBV Contract Rent set at lower of:
Initial	a) Comparable market rents (determined by a Rent Comparability Study) and b) 110% of Fair Market Rent (FMR) <ul style="list-style-type: none"> • Owners may request to use Small Area FMR (zip code based) • SRO Units use Efficiency FMR • With HUD approval, contract rents may be set up to 120% of FMR 	a) Market rent levels (determined by PHA’s Rent Reasonableness analysis) b) 110% of FMR <ul style="list-style-type: none"> • SRO Units use Efficiency FMR
Adjustments	Annually adjusted by Operating Cost Adjustment Factor (OCAF)	Re-determined annually to Rent Reasonableness/11-% of FMR (see 24 CFR 983.302)

Is there a limit on the volume of Mod Rehab properties that can convert under RAD? Do all units under the existing Mod Rehab contract convert under RAD?

There is no cap on the number of Mod Rehab or Mod Rehab SRO properties that can convert under RAD. All eligible properties can convert. For conversions to PBRA, all units are eligible. For conversions to PBV, only units occupied at the time of the contract expiration or termination are eligible. (Conversions to PBV are funded through the issuance of tenant protection vouchers. HUD’s current policy is only to provide vouchers for the number of occupied units.)

What is the process for converting a property under RAD?

A RAD conversion typically takes between 6 and 18 months from initiation to completion. The major conversion steps are on the next page. Please note that some steps take more time to accomplish than others.



RAD CONVERSION PROCESS FOR MOD REHAB PROPERTIES

Submission of Interest
Owner provides basic property and owner information to HUD through Resource Desk; HUD assigns a “Transaction Manager”



- Prior to submission of Financing Plan, owners are required to:
- Notify residents of their intent to participate in RAD and provide opportunities for comments on proposed plans
 - Consult with local Continuum of Care (CoC) (for conversion of Mod Rehab SROs)
 - Initiate the process with HUD to identify a PHA to administer the PBV contract (for conversion to PBV)



Financing Plan
Owner submits all related due diligence (CNA, environmental review documents, financing commitments, etc.) and proposes sources & uses and operating pro forma



HUD Approval
HUD issues letter to approve Financing Plan



Conversion
PHA and owner terminate Mod Rehab contract; new PBV or PBRA HAP contract is executed; any construction financing closes



Is it typical for RAD Mod Rehab conversions to include new financing and/or a sale of the property?

New financing is common, but it is required only when the project cannot otherwise pay for the capital needs identified in the Capital Needs Assessment. Sale of the property is permitted and frequently occurs when the owner is recapitalizing the property with Low-Income Housing Tax Credits and/or when a preservation-minded purchaser acquires the property.

May a PHA or its affiliate acquire the property as part of the conversion to RAD?

Yes.

What rights and protections does RAD offer residents?

Residents enjoy the following rights and protections under RAD:

- Owners must consult with residents prior to conversion.
- Residents may not be rescreened as a result of conversion (except for uncommon conditions established by statute).
- If residents need to be relocated temporarily due to repairs on the property, residents have a right to return to the property.

Except for certain conversions to PBRA, residents have a right to a tenant-based voucher after a period of residency at the property (i.e., “choice-mobility”). (The household’s move does not affect the number of units on the Section 8 contract.)

Are properties required to continue to serve the homeless following conversion?

Yes, a homeless preference is required to ensure that the property continues to serve this population. For RAD PBV SRO conversions, the required preference is established by the PHA through its Administrative Plan. For RAD PBRA SRO conversions, the required preference is established by the owner (in accordance with HUD Handbook 4350.3) and is documented in the Tenant Selection Plan. The homeless definition requirements of the CoC Interim Rule (24 CFR 578.3) apply. The homeless preference outranks any other preferences. PHAs and owners are prohibited from adopting discretionary policies that circumvent the homeless preference; for example, discretionary policies that would prevent homeless individuals / families from becoming eligible would be prohibited.

Is RAD technical assistance available for Mod Rehab owners?

Yes. HUD has made available a limited amount of funding for RAD technical assistance. Email HUD at RAD2@hud.gov for more information.



FOR MORE INFORMATION, VISIT:

For conversion requirements, see RAD Notice (PIH-2012-32 (HA) H-2017-03, REV-3):
portal.hud.gov/hudportal/documents/huddoc?id=RAD_Notice_Rev3_Final.docx

For tools and additional information on RAD:

- www.hud.gov/rad
- www.hudexchange.info/programs/rad/

To submit a letter of interest, visit the RAD Resource Desk: www.radresource.net/

For additional information on Multifamily Preservation:

www.hudexchange.info/programs/multifamily-housing-preservation/

Questions? Contact the Office of Recapitalization at rad2@hud.gov.